

Reports of Missteps on BNL Loans to Iraq Fuel

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Lawmakers who allege that the Bush administration covered up illegal financial dealings with Iraq and those who dismiss the allegation as politically motivated hogwash each obtained some new ammunition for their battle on Friday, with the disclosure of two long-awaited reports on the matter.

NEWS ANALYSIS

The reports, one prepared by the CIA inspector general and the other by the Senate Select Committee on Intelligence, contain new information about the mishandling of classified intelligence reports bearing on more than \$4 billion in loans to Iraq between 1985 and 1989 by the Atlanta branch of an Italian government-owned bank, Banca Nazionale del Lavoro (BNL).

Because Iraq used the loans to buy food

and arms before it invaded Kuwait in August 1990, the government's inquiry into who was responsible for the loans is a politically sensitive matter. The U.S. attorney's office in Atlanta, acting under Justice Department supervision, in February 1991 pinned the entire responsibility on the director of BNL's Atlanta branch, Christopher P. Drogoul.

But the new reports make clear that before reaching this conclusion, the U.S. attorney's office was not provided with BNL-related intelligence reports. Some of these reports suggested that officials at BNL's Rome headquarters shared responsibility for the loans, or even that U.S. and allied government officials had played a part in the scandal by sponsoring or supporting some of the loans.

By concluding that numerous officials took improper actions, displayed bad judg-

ment, failed to pursue obvious leads and communicated poorly with one another about BNL-related intelligence, the reports could bolster the suspicions of some Democratic lawmakers that the executive branch deliberately skewed the investigation to blame the wrong man and hide information about its own involvement in the BNL loans to Iraq.

But the reports also conclude that no official was guilty of criminal wrongdoing in mishandling the intelligence reports and that what some Democratic lawmakers portrayed last year as a massive Bush administration coverup instead was a series of random or uncoordinated mistakes. The reports also state that the documents in question did not contain any proof to support the allegations of government involvement in the loans.

In short, the reports suggest the presence

Both Sides of Coverup Dispute

of some smoke but conclude there was no fire. As CIA Inspector General Frederick P. Hitz wrote, "No evidence was found in this investigation to indicate that any CIA officer intentionally withheld any information concerning BNL . . . for the purpose of obstructing . . . the BNL-Atlanta prosecution or to protect CIA, its employees, sources, or any foreign officials or governments from being implicated in that prosecution."

At the same time, the intelligence information that failed to reach federal prosecutors uniformly suggested the scandal was wider than the prosecutors had alleged because it implicated BNL officials at more senior levels than Drogoul's or hinted at involvement by U.S. or Italian government officials.

One classified report, published by the Defense Intelligence Agency 1½ months after BNL-Atlanta's loan operation was halted by a federal raid, even contained specula-

tion that "the BNL mechanism" was part of a NATO strategy to ensure an Iraqi victory in its war with Iran between 1980 and 1988. That notion, if true, would bear out the speculation of some Democratic lawmakers last year.

While prosecutors never saw the DIA report, it provoked special inquiry by two Justice Department officials who saw it. DIA deputy general counsel Robert H. Berry Jr. told the Senate committee that the Justice Department officials dismissed the report because they believed "there was really no substance here . . . that it was mainly cafe conversation and speculation about material appearing in the newspaper."

No actual investigation of the allegation in the DIA report was conducted by the Justice Department, according to the Senate report. Nor did the Senate committee or the CIA

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inspector general consider it their responsibility to probe the claim beyond reviewing the official documents they received.

Neither the Justice Department nor the FBI, which received the majority of the classified reports suggesting a wider scandal, diligently probed those leads, the Senate report reveals. A major critic of the BNL probe, Rep. Henry B. Gonzalez (D-Tex.), had, for example, repeatedly expressed interest in what the National Security Agency might have known about the BNL loans or the Iraqi weapons purchases they financed.

But the Justice Department's interest in pursuing this angle was

half-hearted at best. According to the Senate report, two officials of the department's criminal division, Theodore Greenberg and Peter Clark, cut short their sole review of voluminous BNL-related information at NSA headquarters at Fort Meade because of a snowstorm on Dec. 27, 1990, and never returned.

When the NSA told the Justice Department last summer that it had identified another 3,000 documents of potential interest, Clark suggested the Atlanta prosecutors put together a team to conduct a systematic analysis of the material. "No action was taken," the Senate report said.

"Should some of our reports have triggered an interest in probing further?" asked a CIA official yesterday. "That's certainly a legitimate obser-

vation." But the official, who spoke on condition that he not be named, said he believed the lack of aggressive probing was not due to deliberate malfeasance but resulted more from error and poor judgment.

Whatever the reason, the consequence was that no one "from the U.S. attorney's office or from the task force investigating the case saw any of the intelligence information prior to the indictment" of Drogoul in February 1991, according to the Senate report, which called the Justice Department's actions "shoddy."

The intelligence information also was withheld from Drogoul, who was entitled by law to obtain any information in the hands of the government that might tend to exonerate him.